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Item 546-D GAI-13:GGD-80-21

BY THE U.S GENERAL ACCOUNTING OFFICE

Report To The Chairman Of The Board Of Governors, The Federal Reserve System

The Federal Reserve Should Assure Compliance With The 1970 Bank Holding Company Act Amendments

COMPLETED ORIGINAL

In its desire to separate banking from other businesses, the Congress amended the Bank Holding Company Act in 1970 to require certain existing one-bank holding companies to resolve the status of their nonbanking subsidiaries by December 31, 1980. The companies could

--qualify for an exemption,
--divest their nonbanking activities, or
--divest their banks.

With the deadline approaching, the Federal Reserve, given authority to administer the act, should assure that all affected companies comply so that the intent of Congress will be realized.

GGD-80-21
MARCH 12, 1980

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

B-197053

The Honorable Paul A. Volcker
Chairman, Board of Governors of the
Federal Reserve System

Dear Mr. Volcker:

As part of our review of the Federal Reserve's supervision and regulation of bank holding companies, we assessed its management of the divestiture requirement in the 1970 amendments to the Bank Holding Company Act of 1956.

Although the Federal Reserve has taken actions regarding this requirement, it should do more to assure that companies comply by the December 31, 1980, deadline. Generally inactive for the first half of the divestiture period, the Federal Reserve has in recent years established voluntary milestones to persuade holding companies to meet the divestiture requirement. It has not, however, required companies to initiate procedures toward meeting the requirement, nor had it developed a policy to deal with noncompliance until late in our review. Thus, unless the Federal Reserve takes more aggressive action, the intent of Congress to separate banking and commerce by December 31, 1980, may not be met.

THE CONGRESS CLEARLY INTENDED TO SEPARATE BANKING AND COMMERCE

Major bank and bank holding company legislation since 1933 clearly demonstrates the congressional concern that banking businesses be separate from nonbanking ones. Bank holding companies control banks, but can also engage in certain nonbanking activities. With enactment of the Bank Holding Company Act of 1956, and its amendments in 1966 and 1970 (12 U.S.C. 1841 et. seq.), the Congress has

gradually defined "bank holding company" and, in general terms, the activities in which the companies may engage.

Through this legislation, the Congress gave the Federal Reserve the authority to determine which activities are closely related to banking. The Bank Holding Company Act requires the Board to consider whether the activity will produce public benefits that outweigh possible adverse effects. To meet this requirement, it has compiled a list of activities determined to be closely related to banking (referred to as the list of permissible activities). This list includes such activities as mortgage banking, credit card issuance, investment advising, and insuring loans.

The 1970 amendments permitted one-bank holding companies formed after June 30, 1968, and one-bank holding companies with nonbanking activities that began after this date, to retain their nonbanking activities for up to 10 years. They have until December 31, 1980, to

--qualify for a general exemption under the act,

--qualify for an exemption because their nonbanking activities are closely related to banking,

--divest the impermissible nonbanking activities, or

--divest the bank.

The 1970 amendments exempted nonbanking activities engaged in by companies owning one bank before June 30, 1968, from the divestiture requirement. Holding companies may continue to operate these activities indefinitely unless the Board terminates the exemption to prevent (1) undue concentration of resources, (2) decreased or unfair competition, (3) conflicts of interest, or (4) unsound banking practices.

Companies may avoid divestiture by qualifying for a general exemption. Family-owned companies are exempt, as are agricultural and labor organizations. Another exemption allows a holding company to own shares in those activities which national banks are specifically allowed by statute to operate. Other exemptions are available for activities that provide services solely for the holding company or its banking subsidiaries and for activities that do no business in the United States.

THE FEDERAL RESERVE SHOULD ENSURE THAT THE INTENT OF CONGRESS IS REALIZED

The Federal Reserve should increase its efforts to administer the divestiture requirement. Many bank holding companies which may have to divest impermissible activities have not yet taken steps to do so. Even many companies with apparently permissible activities have not yet begun procedures to retain them. The Federal Reserve has thus far relied on voluntary compliance by affected companies. Yet, complying with the divestiture requirement in the remaining time may be difficult because of lengthy compliance procedures. Therefore, the intent of the Congress to separate banking and commerce by December 31, 1980, may not be realized.

The following table shows bank holding company efforts to comply with the divestiture requirement as of September 30, 1979:

Number of bank holding companies originally covered by the divestiture requirement	471
Number of companies which have complied already	158
Number of companies which still must take action by the deadline	313
Number with apparently impermissible activities	98
Number with apparently permissible activities	215

As the table shows, 98 companies that still must act operate activities that Federal Reserve staff members feel may not be permissible and might not be divested on time. Twenty-five of them have promised to divest their banks, but only two have filed plans to do so. Of the other 73 companies with apparently impermissible activities, only 39 have taken even preliminary steps to divest or retain. (See enclosure I, tables 1 and 3.)

Even the rest of the companies that have apparently permissible activities may not be in compliance at the deadline. They must file applications to retain those activities, and only six had done so as of September 30, 1979.

(See enclosure I, table 2.) For example, 139 of these companies own general insurance agencies in towns with less than 5,000 people. A September 1977 court ruling allowed the Federal Reserve to declare them to be permissible. However, the Federal Reserve, hoping that Congress would instead pass appropriate legislation, did not do so until November 1979. The companies, therefore, have had only about a year to complete their retention applications and have them processed by the Federal Reserve.

The Federal Reserve has relied on voluntary compliance

The Federal Reserve has relied entirely on voluntary compliance. While it has set voluntary milestones for affected companies to meet, it has not required them to comply with its guidelines for filing plans, nor has it established mandatory filing dates to ensure that holding companies will comply by the statutory deadline. Finally, it did not publish a policy on enforcing the deadline until December 1979.

For the first 7 years of the period, the Federal Reserve chose to handle each divestiture case by case. The Board's Legal Division recommended modifying this approach by using general guidelines because of the (1) large number of divestitures remaining, (2) need to avoid a surge of applications in the last year, and (3) need to accomplish board action well in advance of the deadline. At the Division's recommendation, the Board issued guidelines on divestitures in February 1977.

Under the Board's February 1977 guidelines, companies are required to obtain Federal Reserve approval for a divestiture plan and to outline the steps they will take to divest. They must also submit regular reports detailing the progress made toward divestiture. The purpose of requiring such reports is to ensure that companies are satisfying their divestiture obligations.

On October 12, 1977, the Board of Governors agreed on a June 30, 1978, voluntary filing deadline. It was acting on a recommendation from its Division of Banking Supervision and Regulation to establish a timetable for submitting retention applications and divestiture plans. The Board also unanimously agreed that at a later date it would establish a mandatory deadline.

When only 39 holding companies subject to the 10-year grandfather clause complied fully with the divestiture requirement between October 1977 and October 1978, the Division of Banking Supervision and Regulation became concerned that companies would not meet the deadline. It recommended that the Board of Governors establish a June 30, 1979, mandatory filing date for retention applications and divestiture plans. Instead, the Board of Governors agreed upon another voluntary filing date of September 30, 1979.

Enforcement policy not prepared

The Federal Reserve did not publish an enforcement policy to deal with holding companies that do not comply with the divestiture requirement until December 13, 1979. The Federal Reserve has repeatedly cautioned holding companies that the deadline is not extendable and that noncompliance may result in forced sales. However, until late in our field work, officials had not decided what action will be taken against companies operating activities beyond the divestiture deadline.

Achieving full compliance in the remaining time may be difficult

It is doubtful that full compliance with the divestiture requirement can be achieved in the remaining time. Effective compliance involves lengthy divestiture or retention procedures. As early as October 1977, Board staff expressed concern over a large influx of applications near the deadline. Board staff members believe that divestiture plans and retention applications should have been submitted by June 30, 1978, to assure orderly compliance with the deadline.

CONCLUSIONS

The Federal Reserve should increase its efforts to ensure compliance with the divestiture requirements of the 1970 amendments. With less than a year remaining, more than 300 companies have not taken the action needed to be in compliance at the statutory deadline, though for some that action is relatively simple. Unless the Federal Reserve acts quickly, companies may operate unauthorized activities beyond the divestiture deadline.

We can only speculate as to why bank holding companies have not voluntarily taken the necessary action to meet the

divestiture requirement. Companies may be simply delaying the divestiture of a profitable activity as long as possible. On the other hand, companies may hope that the Congress will extend the deadline. Some companies have asked the Congress to extend the divestiture deadline, and others are likely to do so.

The 10-year period established by the Congress is long enough for most companies to comply without economic hardship. In several Federal Reserve districts, most companies have complied fully with the 1970 amendments. In addition, upon becoming a bank holding company, an applicant has only 2 years to divest impermissible nonbanking activities. Three 1-year extensions may later be granted--allowing a maximum of 5 years to divest.

RECOMMENDATIONS

We recommend, as part of the Federal Reserve's future effort to ensure compliance with the divestiture requirement of the 1970 amendments to the Bank Holding Company Act, that the Chairman, Board of Governors of the Federal Reserve System:

--Require bank holding companies to declare the method by which they will comply, that is, divestiture, retention, reorganization, or claim of exemption.

--Establish a mandatory filing date for retention applications and divestiture plans, to insure that full compliance is achieved by the deadline.

--Require companies filing a divestiture plan to adhere to the reporting requirements in the February 1977 Board policy statement on divestitures.

Agency Comments

The Federal Reserve Board of Governors disagreed with our analysis of its efforts. (See enclosure III.) Its three major arguments were as follows: first, that it has taken steps designed to encourage the affected companies to meet their 1980 obligations, and is ready to handle enforcement actions case by case; second, that it does not have the authority "to force bank holding companies to take actions that would shorten the 10-year period granted by Congress," including setting a mandatory filing date as we recommend;

third, that it will not face a serious problem because "***69 percent of the original number of companies have either met their obligations or are expected to have no difficulties meeting them."

We acknowledge that the Board has taken some actions to encourage companies to comply, and so noted in our report. But the Board should ensure that the intent of the Congress will be fulfilled by requiring companies, not just encouraging them, to take steps to retain or divest activities by the deadline. Voluntary milestones have not been entirely effective.

The Board contends that it lacks authority to do anything that would shorten the 10-year divestiture period. But, we have not recommended any action that would do so. We have only recommended that companies should be required to file applications and divestiture plans.

The Board also contends that it lacks the authority to establish mandatory dates by which companies must file retention applications or divestiture plans. In fact, the Board's Legal Division recommended in January 1977 that the Board approve a policy requiring companies to file a divestiture plan for approval at an early date.

The Board does have the authority to implement our recommendations. Section 5(b) of the Bank Holding Company Act, as amended, authorizes the Board to issue such regulations and orders as necessary to prevent evasions of the act. Notwithstanding the Board's comments on page 12, legislative history also indicates that the Congress intended bank holding companies to divest impermissible activities as quickly and efficiently as possible (116 Cong. Rec. 42437 remarks by Sen. Bennett). Therefore, setting a mandatory filing date is a management decision that both we and the Board's staff felt should have been made.

The Federal Reserve's analysis of the number of holding companies yet to take satisfactory action differs from ours, and we believe that the Board has narrowed the figures too much. The Board contends that we should be concerned about only 68 companies that have never responded to the Federal Reserve's requests.

However, the Board's analysis dismissed 25 companies that have declared they will divest their banks. Only two of them have even filed divestiture plans.

The Board's figure also ignores 139 companies with general insurance activities simply because their applications should be processed quickly. These companies have not taken any steps toward compliance even if their cases are simple. Since all of these applications must be filed in only three districts, some administrative burden might ensue.

This report contains recommendations to you. As you know, section 236 of the Legislative Reorganization Act of 1970 requires the head of a Federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report. Copies of this report are being sent to the Chairmen of those committees; the Senate Committee on Banking, Housing and Urban Affairs; and the House Committee on Banking, Finance and Urban Affairs.

Sincerely yours,

Allen R. Voss
Director

Enclosures

Enclosure I

NUMBER OF BANK HOLDING COMPANIES WHICH HAVE NOT TAKEN THE NECESSARY ACTION TO MEET THE DIVESTITURE DEADLINE AS OF SEPTEMBER 30, 1979

Table 1

Bank Holding Companies With Activities That The Federal Reserve Believes Are Impermissible

Number of bank holding companies	98
Number of companies which have taken action.	41

Table 2

Bank Holding Companies With Activities That The Federal Reserve Believes Are Permissible

Number of bank holding companies	a/ 215
Number of companies which have filed a retention plan	6
Number of companies which have taken action to divest their activities	36

a/Includes 139 companies operating a general insurance activity in a town of less than 5,000 people.

Table 3

Bank Holding Companies Which Have Filed An Irrevocable Declaration To Divest Their Bank Subsidiary

Number of bank holding companies	25
Number of companies which have filed a divestiture plan	2

Enclosure II

NUMBER OF BANK HOLDING COMPANIES WHICH HAVE COMPLIED FULLY WITH THE DIVESTITURE REQUIREMENT AS OF SEPTEMBER 30, 1979

Number of bank holding companies	158
Those divesting their bank	65
Those divesting their nonbanking activity(s)	22
Those gaining retention approval for their nonbanking activity(s)	17
Those obtaining a 4(c)(5) exemption	7
Other exemptions	47

ENCLOSURE III

ENCLOSURE III

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C. 20551

PAUL A. VOLCKER
CHAIRMAN

December 13, 1979

Mr. Allen R. Voss
Director
General Government Division
U. S. General Accounting Office
Washington, D. C. 20548

Dear Mr. Voss:

The Board has reviewed the draft report of the General Accounting Office on the effectiveness of the Federal Reserve's administration of the 10-year grandfather provisions in the 1970 Amendments to the Bank Holding Company Act of 1956. In its response to that report, which is attached, the Board stated its belief that the 10-year grandfather provisions have been administered in a reasonable, fair and effective manner consistent with the Board's legal authority.

On behalf of the Federal Reserve, I want to thank you for the opportunity to comment on the report.

Sincerely,

Paul C. Volcker

Attachment

ENCLOSURE III

ENCLOSURE III

TO: Mr. Allen R. Voss, Director
General Government Division
U. S. General Accounting Office

DATE: December 13, 1979

FROM: Board of Governors of the
Federal Reserve System

Thank you for the opportunity to review and respond to the draft report of the General Accounting Office ("GAO") on the effectiveness of the Federal Reserve's administration of the 10-year grandfather provision in the 1970 Amendments to the Bank Holding Company Act of 1956. The Federal Reserve believes that through the first nine years of the period its administration of the 10-year grandfather provision has been reasonable, fair and effective. Until January 1, 1981, moreover, the Federal Reserve has no authority to force bank holding companies to take actions that would shorten the 10-year period granted by Congress. Thus, the thrust of the GAO report is without merit.

In considering the 1970 Amendments to the Bank Holding Company Act of 1956 ("Act"), House and Senate conferees decided to permit one-bank holding companies formed after June 30, 1968, and one-bank holding companies with nonbanking activities that began after June 30, 1968 to retain their nonbanking activities for up to ten years until December 31, 1980. By the end of that period, the 1970 Amendments contemplated that the nonbanking activities or the subsidiary bank would be divested, or the activities retained under other provisions of the Act. The 10-year period was selected over more limited periods that had been proposed, apparently because of the economic effects that could result from a large number of divestitures in a short period of time. Moreover, according to comments made by Senator Sparkman, Chairman of the Senate Banking and Currency Committee, the 10-year period,

> ". . . . . was deemed necessary to provide a divestiture period of sufficient length that these companies will have adequate time to make their divestiture plans after the appropriate tax relief measure is passed by Congress." 1/

Since 1970 the Federal Reserve, within its authority, has taken a series of appropriate steps designed to encourage affected bank holding companies to assess the status of their nonbanking activities and facilitate compliance with their 1980 obligations (i.e., retention or divestiture of bank or nonbank activity). (See Appendix A.) In addition, during 1980, the final year of the 10-year grandfather period established by Congress, the Federal Reserve will continue to take appropriate steps to encourage the affected companies to meet their 1980 obligations. Furthermore, in the event that violations of the Act occur on January 1, 1981, as a result of failure of companies to meet their 1980 obligations, the Federal Reserve is prepared to take appropriate action on a case-by-case basis based on the facts of a particular situation, including

1/ 116 Cong. Rec. 42425 (1970) (remarks of Sen. Sparkman). See also S. Rep. No. 1084, 91st Cong., 2d Sess. 7, reprinted in 1970 U.S. Code Cong. & Ad. News 5519, 5525-5526.

the institution of cease and desist proceeding, the imposition of civil money penalties, or referral for criminal prosecution. While the Federal Reserve lacks authority to actually require any bank holding company to fulfill its 1980 obligations before December 31, 1980, the Board has acted diligently and in good faith with respect to encouraging affected companies to take action, and monitoring their programs.

Shortly after passage of the 1970 Amendments, the Board began the process of determining permissible nonbanking activities that bank holding companies could engage in under Section 4(c)(8) of the Act. 2/ This enabled affected bank holding companies to elect to apply to the Federal Reserve under that section for approval to retain those nonbanking activities or subsidiaries deemed permissible. Also, in 1971, the Federal Reserve established requirements for companies wishing to take advantage of the provisions of Section 4(c)(12) of the Act. Specifically, a company that committed irrevocably to divest its bank was free to expand its nonbanking activities. 3/

Since 1970, the Board has obtained special, as well as regular, reports from bank holding companies in order to monitor the companies' plans for meeting their 1980 obligations. For example, the Board's registration statement (F.R. Y-5) was revised in 1971 to accommodate the bank holding companies covered by the 1970 Amendments. It required each bank holding company to indicate whether it planned divestiture of each impermissible nonbanking subsidiary or its bank. Similarly, the bank holding company annual report form (F.R. Y-6) requires bank holding companies to identify the exemptive provision for each existing nonbank subsidiary and activity, and to list subsidiaries and activities terminated in the preceding year. In addition, the annual reports for 1976 and 1977 included a special item

2/ A basic list of permissible activities was established in 1971, although subsequent court challenges necessitated additional proceedings (several public hearings) with respect to some activities. For example, the activity of acting as a general insurance agent in towns of under 5,000 population, which was added to the permissible activity list in 1971, was subsequently remanded by the courts to the Board for further proceedings in 1978. Accordingly, the Board solicited public comment on whether this activity should be returned to the permissible activity list. Based on its analysis of the comments received, the Board approved this activity in a modified form on November 2, 1979, to become effective December 5. While there were some 139 bank holding companies waiting to obtain the Board's approval to continue to engage in that activity beyond 1980, it is expected that most, if not all, of these companies will easily obtain such approval through the application process to meet their 1980 obligations.

3/ Of the original 81 bank holding companies filing declarations, 56 have divested their banks or obtained 4(d) exemptions. In addition, 7 of the 25 remaining bank holding companies have requested prior tax certifications for proposed divestitures.

requiring a report from each bank holding company on progress made and plans for meeting their 1980 obligations. As discussed below, since 1977 the Federal Reserve has also twice requested special reports by affected companies concerning their 1980 obligations.

In February 1977, the Federal Reserve issued a general policy statement regarding divestitures of all types, and specifically urged affected companies to take early action on meeting their 1980 obligations. 4/ In October 1977, the Federal Reserve issued a policy statement specific to the 1980 obligations, and the Reserve Banks sent a letter to bank holding companies affected by the 10-year grandfather provision urging that divestiture plans or retention applications be filed by June 30, 1978. In December 1978, the Federal Reserve issued another statement and another letter was sent to affected bank holding companies setting September 30, 1979, as the date by which the companies should file divestiture plans or retention applications in order to ensure that the companies would meet their 1980 obligations.

While some affected bank holding companies have not responded directly to any of the Federal Reserve's initiatives, a significant number did respond and have already met their 1980 obligations. In particular, since the Federal Reserve's October 1977 policy statement, a total of 65 companies have fulfilled their 1980 obligations. Divestiture plans have been received from an additional 81 companies, while reports were not requested from the 139 bank holding companies whose sole nonbanking activity is selling insurance in towns of less than 5,000 population. (See footnote 2 supra.) Thus, excluding these 139 companies, with 13 months remaining of the 10-year grandfather period, only 68 companies remain that must file divestiture plans or retention applications.

Since passage of the 1970 Amendments, the number of companies originally covered by the 1980 divestiture requirements has been reduced by 39 per cent from 471 to 288 as a result of divestitures, exemptions, or permitted retentions. Moreover, 30 per cent of the original bank holding companies having 1980 divestiture obligations are companies whose sole nonbanking activity is selling insurance in towns of under 5,000 population. As noted previously, it is expected that these bank holding companies will experience no difficulties in meeting their 1980 obligations. Thus, 69 per cent of the original number of companies have either met their obligations or are expected to have no difficulties in meeting them.

It should be noted that 10 per cent of the original number of companies were determined to be entitled to exemptions under sections 4(c)(ii) or 4(d) of the Act, and therefore were not required either to divest or to file retention applications; 15 per cent of the original companies fulfilled their 1980 obligations through approved retentions or divestitures during the first seven years following 1970; and an additional 15 per cent did the same during the past two years. With respect to the remaining 31 per cent, these companies have a number of available alternatives, such as spin-off to shareholders, sale, or ceasing the activity, to meet their 1980 obligations. Moreover, the Federal Reserve will continue to press these companies for resolution of their 1980 requirements.

4/ Although the statement indicated that quarterly progress reports would be required in divestiture situations, that requirement referred to divestitures mandated by a Federal Reserve Order or a commitment by a bank holding company. While the statement itself is not clear, the fact that the Board proceeded to set special reporting deadlines for affected bank holding companies with 1980 obligations would substantiate the limited nature of the quarterly reporting requirements.

A primary factor contributing to the surge in activity since 1977 was the enactment in 1976 of the long-awaited tax relief legislation for bank holding companies required to make divestitures as a result of the 1970 Amendments. In enacting the 1970 Amendments, Congress indicated its intention to adopt appropriate tax relief measures for bank holding companies required to make divestitures. Indeed, as noted earlier, Senator Sparkman commented that the 10-year period was needed to allow time for divestiture after the passage of such tax relief. Senator Sparkman also stated that it would be "inequitable" to require divesting companies to commit to divestiture plans before knowing what tax relief would be afforded. Accordingly, since the tax relief was passed in November 1976, companies have been more willing to undertake specific divestiture programs.

In conclusion, the Federal Reserve has administrated the 1980 grandfather provisions of the 1970 Amendments in a responsible manner. Furthermore, the Board believes that the available evidence does not suggest that massive violations of the 1980 provisions will occur. As noted previously, in the forthcoming year, the Board will continue to encourage affected companies to meet their 1980 obligations, with particular attention focused on those few companies which have not responded to the Board's previous initiatives, as well as those companies that have been identified as having particular problems with respect to meeting their 1980 obligations.

Finally, the following comments are offered in response to the recommendations contained in the conclusions to your report:

-- Require bank holding companies to declare the method by which they will comply, that is, divestiture, retention, reorganization, or claim of exemption.

The Federal Reserve's present program requires such declarations from the limited number of companies that have not yet stated their intentions.

-- Establish a mandatory filing date for retention applications and divestiture plans, to insure that companies comply in the remaining period.

As stated previously the Board lacks authority under the Act to establish such a mandatory date prior to the end of the 10-year period granted by Congress.

-- Require companies filing a divestiture plan to adhere to the reporting requirements in the February 1977 Board policy statement on divestitures.

The reporting requirements in the February 1977 policy statement apply to divestitures required by Board Order or commitments by bank holding companies.

ENCLOSURE III

— Develop and make public a formal written enforcement policy to deal with companies not in compliance with the divestiture requirement at the statutory deadline. The policy should clearly outline the penalties which will be assessed against companies not complying with the requirement.

We agree that at this point another policy statement emphasizing the penalties for violation of the Act would be helpful, and, in accordance with previous plans, the Federal Reserve is preparing to issue a statement. However, we wish to stress that any violations of the Act that occur as a result of failure to meet the 1980 deadline must be reviewed on a case-by-case basis.

ENCLOSURE III

Appendix A

December 1970 - 1970 Amendments to the Bank Holding Company Act became effective bringing all one-bank holding companies under the authority of the Federal Reserve System.

January 1971 - All one-bank holding companies were required to file a Registration Statement with the Federal Reserve. The Registration Statement contained items which required each bank holding company to state the exemptive provision of the Act under which the bank holding company held its nonbanking activities, and to indicate whether the bank holding company planned divestiture of its banking or nonbanking activities.

June 1971 - Federal Reserve established conditions under which a bank holding company could take advantage of the liberal acquisition provisions of Section 4(c)(12) of the Act by filing an irrevocable declaration to divest of its bank by December 31, 1980.

1971 - Federal Reserve established a basic list of permissible nonbanking activities.

December 1972 - Federal Reserve instituted a Systemwide review of all bank holding companies to determine which BHCs qualified for the 4(c)(ii) "family exemption".

July 1976 - Federal Reserve conducted a survey to verify information on one-bank holding companies affected by the 10-year grandfather divestiture provision of the Act.

December 1976 - As part of the then current revision of the Bank Holding Company Annual Report, a question was added soliciting a response from each affected bank holding company regarding its intentions for complying with the 10-year divestiture requirement. This question was included in the 1977 and 1978 Annual Report form.

February 1977 - Federal Reserve issued a general policy statement regarding divestitures of all types, and specifically urged affected companies to take early action on meeting their 1980 obligations.

September 1977 - Reserve Banks submitted reports regarding status of 10-year grandfathered bank holding companies.

October 1977 - Federal Reserve issued a policy statement, and sent a letter to all affected bank holding companies urging them to file divestiture plans or retention applications by June 30, 1978.

ENCLOSURE III

Appendix A

October 1978 - Reserve Banks submitted reports regarding status of 10-year grandfathered bank holding companies.

December 1978 - Federal Reserve issued another policy statement and sent another letter to all affected bank holding companies setting September 30, 1979, as the date by which bank holding companies should file divestiture plans or retention applications to be effective by the end of 1980.

October 1979 - Reserve Banks submitted reports regarding status of 10-year grandfathered bank holding companies.

November 1979 - Federal Reserve revised its list of permissible nonbanking activities to include sale of general insurance in towns of less than 5,000 population. Reserve Banks instructed to notify each affected bank holding company of the Federal Reserve's action and to solicit applications from the bank holding companies as soon as possible.

ENCLOSURE III

Appendix B

-8-

1.	Number of bank holding companies originally covered by the divestiture requirement	471
2.	Number of bank holding companies that have filed irrevocable declarations	(81)
		390
3.	Number of bank holding companies determined to qualify for 4(c)(ii) exemption	(37)
		353
4.	Number of bank holding companies that divested or gained retention approval of nonbanking activities after Federal Reserve's October 1977 policy statement	(39)
		314
5.	Number of bank holding companies that divested or gained retention approval of nonbanking activities after Federal Reserve's December 1978 policy statement	(26)
		288
6.	Number of bank holding companies that have filed divestiture plans with Federal Reserve	(81)
		207
7.	Number of bank holding companies engaged in general insurance activities affected by Federal Reserve's November 1979 action authorizing sale of general insurance in towns of less than 5,000 population. It appears that most of the applications filed by these companies can be processed under delegated authority.	(139)
8.	Number of bank holding companies that have not filed divestiture plans or retention applications	68

* * * * *

9.	Number of bank holding companies that have filed irrevocable declarations	81
10.	Number of "irrevocable bank holding companies" that have divested their banks or obtained 4(d) exemptions	(56)

ENCLOSURE III

Appendix B

11.	Number of "irrevocable bank holding companies" that have yet to comply with 12/31/80 deadline	25
12.	Number of "irrevocable bank holding companies" that have filed requests for prior tax certifications	(7)
		18

NOTE: In order to arrive at the GAO figure (313) for the number of companies which have not taken necessary action to meet the 1980 divestiture deadline (page 3 of the report), add lines numbered 6, 7, 8 and 11.

(232010)

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